

Opportunities Under the Energy Independence Act

NAESCO New England Regional Meeting
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Environment Northeast

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We use policy analysis, collaborative problem solving, and advocacy to advance the region's environmental and economic sustainability.

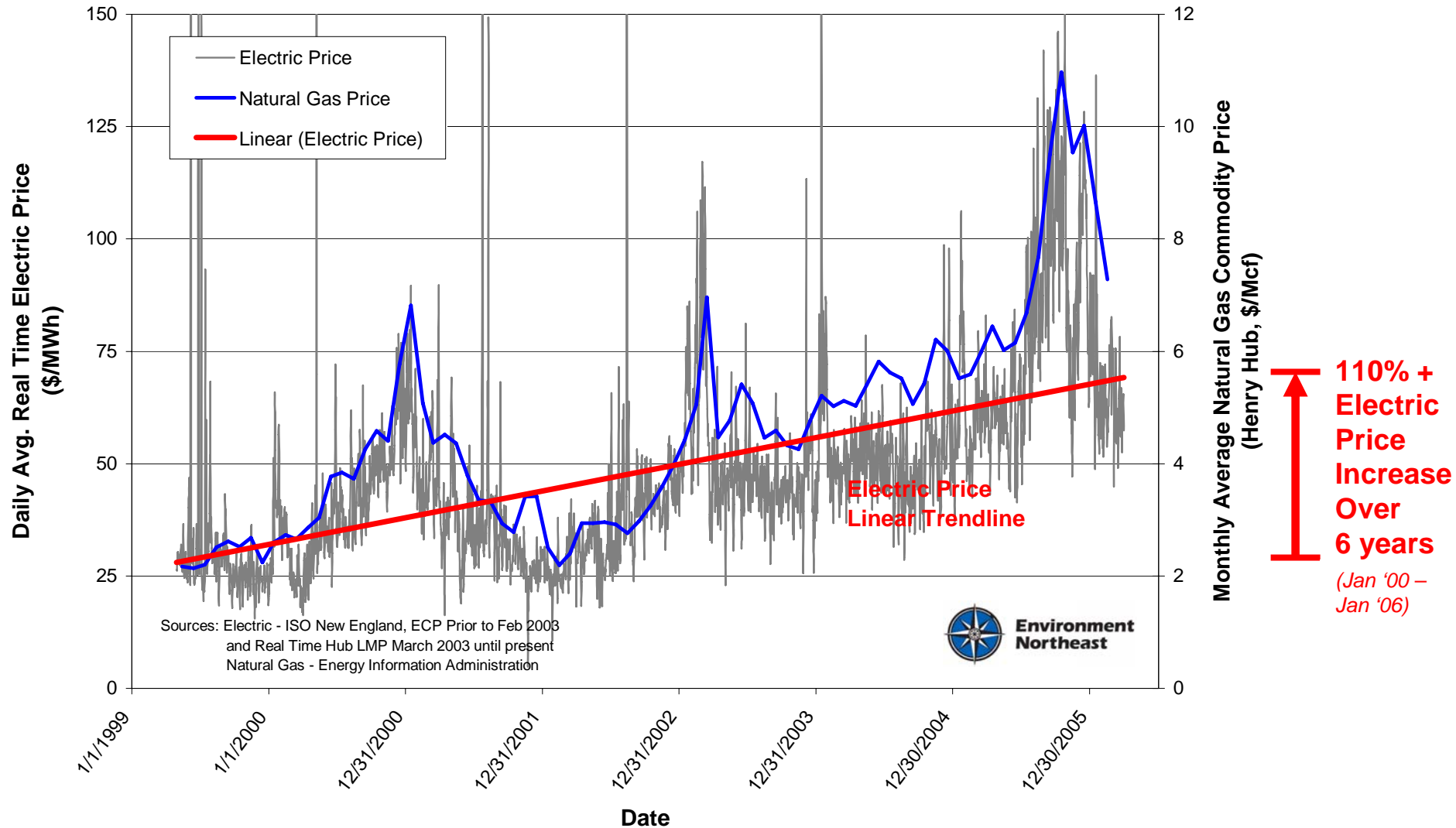
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Energy Prices: *A True Energy Crisis*



Energy Independence Act (EIA) Overview

- EIA passed by CT General Assembly in a special session in 2005 in response to:
 - The projected costs of the LICAP proposal which ISO-NE had developed to stimulate construction of new generating facilities, and
 - Other federally mandated congestion charges (FMCCs)
- Funding for EIA initiatives comes from an FMCC charge on all customers

Goal of EIA

- The EIA was intended to stimulate the development of a broad array of CT resources which would mitigate those costs, including:
 - Energy efficiency
 - Demand response
 - Distributed generation
 - Traditional generating plants

Principal Elements of EIA include:

- Incentives and financing for the development of Distributed Resources
- DPUC approval of near-term measures to be implemented by the distribution companies to reduce FMCCs
- Issuance of a long-term all resource RFP to reduce FMCCs for up to 15 yrs

Principal Elements of EIA (continued)

- Creation of a new portfolio standard for Class III resources consisting of:
 - Combined Heat and Power (CHP)
 - Commercial/Industrial Efficiency
 - Load Management
- Detailed requirements for gas conservation plans to be approved by the Energy Conservation and Management Board (ECMB)

Incentives for the Development of Distributed Resources

- Eligible resources are distributed generation up to 65 MW and Demand Side Measures (DSM) which reduce demand
- Capital grants are available at
 - \$200/kW for emergency generation
 - \$450/kW for base load including CHP
 - an additional \$50/kW for SWCT
- Gas distribution charges are waived for these projects and standby electric rates are reduced

Incentives for the Development of Distributed Resources (continued)

- C&LM grants are determined on a case-by-case basis through the existing programs
- A low interest financing program is available for projects of 50 kW or more with an interest rate which is 1% lower than the customer's applicable rate with no more than the prime rate.

Near Term Measures

- In late 2005, the DPUC approved enhancements to the C&LM program including residential air conditioning and commercial retrofit programs from FMCC funding
- The DPUC also directed the distribution companies to negotiate with demand response providers to expand their customer impact.
- Total 2006 expenditures are about \$23 million, with about \$18 million for load response.

Long-Term RFP

- DPUC has conducted a careful and detailed proceeding to develop an RFP to meet long-term capacity needs which is open to all resources
- A consulting firm, London Economics International (LEI), developed the needs analysis and RFP documents and is administering the process

Long-Term RPF

- Capacity need identified by LEI is approximately 630 MW of quick-star resources
 - Resources could be peaking, demand response or efficiency
- There is a clear need to reduce load growth and future needs for supply resources which has been identified in the State Energy Plan.
- Contract payments will be settled or netted against payments from the ISO-NE Forward Capacity Market (FCM).

Long-Term RFP Timeline

- September 15th 2006: RFP issued.
- September 29th 2006: Bidders must register in order to participate in the RFP.
- December 2006: Bids are due.
- March 2007: winning RFP bids are announced.

Long-term RFP: Bids

- Although bids are submitted on a cost per kW-year basis, the evaluation methodology gives strong consideration to energy savings by calculating the net present value (NPV) of the costs to load of both capacity and energy for each resource proposed
- Provides significant opportunity for efficiency resources because of their potential for substantial savings at this time of high energy prices.

Class III Portfolio Standard

- The EIA specified that a new portfolio standard be developed with credits to be acquired by wholesale and retail electricity suppliers in the state
- Credits are based on the kWh from:
 - CHP systems with operating efficiencies of at least 50%
 - Electricity savings from efficiency and load management at commercial and industrial facilities developed after January 1, 2006.

Class III Portfolio Standard

- The standard ratchets up from 1% to 4% of output from 2007 to 2010.
- A penalty of 3.1 cts/kWh is assessed for noncompliance.
- Measurement and verification is based principally on C&LM program standards
 - Vendors will be required to have savings certified by a Professional Engineer

Class III Portfolio Standard

- Proceeds from the sale of credits will be allocated to the C&LM Fund for projects receiving C&LM incentives, otherwise they will go to the project owner
- The DPUC is arranging for the NEPOOL-GIS to track the credits

Comments on EIA

- The EIA is a good start for meeting electric needs in the state
- The Incentives for distributed generation are aggressive and appear to be stimulating significant levels of activity
- The RFP appears to be appropriately constructed to develop the peaking capacity resources needed to meet ISO-NE locational reserve capacity requirements.

Comments on EIA

- Although there are opportunities in the EIA for encouraging the development of efficiency resources, we believe there are better models for achieving the high levels of implementing cost-effective installations which will maximize customer savings

Recommendation

- CT should adopt a least-cost procurement approach similar to California in which the resource acquisition is prioritized so that all cost-effective efficiency resources are obtained prior to acquiring supply resources.

References

- **Energy Independence Act**

- <http://www.cga.ct.gov/2005/ACT/PA/2005PA-00001-R00HB-07501SS1-PA.htm>

- **Distributed Resource Incentives**

- <http://www.state.ct.us/dpuc/>

- **Long-Term RFP**

- <http://www.connecticut2006RFP.com/>

- **Class III Portfolio Standard**

- <http://www.dpuc.state.ct.us/FINALDEC.NSF/2b40c6ef76b67c438525644800692943/ca768d3295e3fcd085257117006c81f8?OpenDocument>
- <http://www.dpuc.state.ct.us/FINALDEC.NSF/2b40c6ef76b67c438525644800692943/cad07929137a20278525719c006ec899?OpenDocument>

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